Of the four programs that interact with AFDC, Medicaid interacts through an eligibility linkage, while food stamps, school lunch, and housing assistance programs are means-tested. They adjust their benefits on the basis of the amount of AFDC benefits received.

Medicaid. By federal law, households eligible for AFDC are automatically eligible for Medicaid. The amount of AFDC benefits received does not affect the amount of Medicaid benefits. This kind of categorical eligibility suggests that families who gain or lose eligibility for AFDC would also gain or lose Medicaid benefits. In many states, however, even if these families did not receive AFDC benefits, they could be deemed "medically needy" if they had large medical expenses.[8] In these cases, they would continue to receive Medicaid benefits, although in some states fewer services would be provided.

Food Stamp Program. About three-quarters of AFDC households also apply for and receive food stamps. Although virtually every AFDC family is eligible for food stamps, about one-quarter do not apply for them, for unknown reasons. For the 75 percent of AFDC households that do, the level of AFDC benefits affects the level of food stamp benefits received--the higher the AFDC payment, the lower the amount of food stamps received.

For the individual households participating in both AFDC and food stamp programs, any reduction in AFDC benefits would be offset about 32 percent by increased food stamps. The exact percentage depends on the income and shelter deductions of the particular household.

Free or Reduced-Price School Lunch Program. Although over half (55 percent) of AFDC households have children receiving a free or reduced-price lunch at school, almost all these households have incomes well below 130 percent of poverty--the cut-off for free school lunches--so changes in AFDC benefits would not change the free lunch eligibility status of most AFDC households. Therefore, changes in AFDC would not produce significant interactions with the school lunch program.

---

8. In general, state programs for the medically needy give Medicaid coverage to people who meet all categorical requirements for Medicaid eligibility and whose income, after deducting medical expenses, is less than the state's medically needy income standard. This is usually between 100 and 133 percent of the state's AFDC payment standard.

94-308 0 - 82 - 4

Housing Assistance Programs. One-fifth of AFDC households either live in public housing or receive rent subsidies. For these households, changes in AFDC benefits would affect the rent they pay because it is based on income. If AFDC benefits go down, so would the rent. Generally, the rent would decline by 25 to 30 percent of any reduction in AFDC benefits, depending on the rent charged by the housing assistance program during that year. This would partially reduce the impact of an AFDC cut for households receiving housing assistance. Because of the way a few states account for housing expenses in AFDC payments, a reduction in total AFDC benefits may not decrease the rent paid by housing assistance beneficiaries in those states.

Interacting Programs for Social Security Recipients

Five programs discussed in this study potentially could interact with Social Security:[9] Medicare, Medicaid, SSI, food stamps, and housing assistance (see Table 2).[10] These programs can be affected by eligibility or benefit changes in Social Security and provide benefits to enough Social Security recipients to have the potential for significant effects on the federal budget.

Medicare. About two-thirds of Social Security recipients are covered by Medicare. The services provided by Medicare do not depend on the amount of Social Security benefits, so no program interactions would occur for benefit changes in Social Security.

Medicaid. The 15 percent of Social Security recipients who are covered by Medicaid are eligible through programs for the medically needy or through the categorical eligibility of most SSI recipients. Consequently, interactions of Medicaid and Social Security can occur in two ways. First, a reduction in Social Security benefits could lower a household's income enough to qualify it for a medically needy program and thus Medicaid coverage. Second, a reduction in Social Security could be enough to qualify the household for SSI and Medicaid.

---

9. In this report, Social Security refers to both Old Age, Survivor, and Disability Insurance (OASDI) and Railroad Retirement programs. Because of data limitations, disability insurance recipients are included with Social Security.

10. Veterans' pension programs would also interact with Social Security, but the available data do not allow those interactions to be estimated here.

TABLE 2. PERCENT OF HOUSEHOLDS RECEIVING BENEFITS FROM SOCIAL SECURITY[a] THAT PARTICIPATE IN PROGRAMS THAT INTERACT WITH SOCIAL SECURITY

Programs that Interact with Social Security and Patterns of Benefits	Percent of Social Security Households Receiving Benefits from Other Programs[b]
Medicare	83
Medicaid	15
Supplemental Security Income (SSI)	9
Food Stamps	
Social Security and food stamps only or with programs other than SSI and AFDC[c]	3
Social Security, food stamps, either SSI or AFDC, and possibly other programs	5
Total, food stamps	8
Housing Assistance Programs[d]	
Social Security and housing assistance only or with programs other than SSI and AFDC[c]	4
Social Security, housing assistance, either SSI or AFDC, and possibly other programs	1
Total, housing assistance	5

SOURCES: CBO estimates from March 1981 Current Population Survey (CPS) and program data.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement programs.

b. Percentages cannot be added, but must be considered separately.

c. With this pattern of program participation, if the household also received SSI or AFDC benefits, these would offset virtually all changes in Social Security benefits.

d. Household lives in public housing or pays reduced rent subsidized by the existing housing programs of the Housing Act of 1937, as amended.

Supplemental Security Income (SSI). Most low-income Social Security recipients who meet the asset test ($1,500 for a single person; $2,250 for a couple) are eligible for SSI payments. About 9 percent of Social Security recipients apply for and receive these benefits. Roughly half of SSI beneficiaries, however, do not qualify for Social Security. Because the SSI program has a dollar-for-dollar offset with Social Security, interactions could be large.

Food Stamp Program. About 8 percent of Social Security recipients also apply for and receive food stamps, although perhaps 12 percent are eligible. For the 5 percent of the Social Security households that receive food stamps and either SSI or AFDC, virtually all changes in Social Security benefits would be offset entirely by increases from the cash programs.[11] Thus, for this subgroup, policy changes in Social Security would lead to no net change in cash income, so food stamp benefits would also remain unchanged. In contrast, for the 3 percent of Social Security households that receive food stamps but not SSI or AFDC, increased food stamps would offset about 28 percent of any change in Social Security benefits. For this subgroup, therefore, the food stamp program does interact with Social Security.

Housing Assistance Programs. About 5 percent of Social Security recipient households benefit from housing assistance programs. But only the 4 percent of Social Security households that receive housing assistance and no SSI or AFDC benefits would cause interactions with the housing programs as a result of a change in Social Security. For these families, lower Social Security benefits would lead to rent decreases of 25 to 30 percent of the reduction in benefits, depending on the rent charged for housing assistance in that year. The other 1 percent of Social Security households receiving housing assistance also receive SSI or AFDC, programs that would offset changes in Social Security benefits. For these households, no housing program offsets would occur.

---

11. Although AFDC interacts with Social Security, that interaction is so small that it is omitted from this report. Less than 2 percent of Social Security households also participate in AFDC.

Interacting Programs for Unemployment Insurance Recipients

Two programs have the potential for major interactions with unemployment insurance: food stamps and school lunch programs (see Table 3).

TABLE 3. PERCENT OF HOUSEHOLDS RECEIVING UNEMPLOYMENT INSURANCE THAT PARTICIPATE IN PROGRAMS THAT INTERACT WITH UNEMPLOYMENT INSURANCE

Programs that Interact with Unemployment Insurance and Patterns of Benefits	Percent of Unemployment Insurance Households Receiving Benefits from Other Programs[a]
Food Stamps	
Unemployment Insurance and food stamps only or with programs other than SSI and AFDC	9
Unemployment Insurance, food stamps, either SSI or AFDC, and possibly other programs	1-3
Total, food stamps	10-12
Free or Reduced-Price School Lunch[b]	10

SOURCES: CBO estimates from March 1981 Current Population Survey (CPS) and program data.

a. Percentages cannot be added, but must be considered separately.

b. One or more children in the household regularly eat a free or reduced-price school lunch subsidized by the National School Lunch Program.

Food Stamp Program. Although 10 to 12 percent of unemployment insurance (UI) households also receive food stamps, only about 9 percent of UI households would have a change in unemployment benefits offset by a change in the amount of their food stamps. These households do not participate in AFDC or SSI, so the full UI benefit cut would be included in the recalculation of food stamps. The remaining 1 to 3 percent of UI households participate in food stamps but also receive cash benefits from AFDC or SSI, so there would be no change in total cash incomes and their food stamp benefits would not change.

Free or Reduced-Price School Lunch Program. About one-tenth of the households receiving unemployment insurance include children receiving free or reduced-price school lunches. Changes in the amount of UI benefits would affect the school lunch price category only for those households near the income cut-off points--130 percent of the poverty guidelines for free lunches, and 185 percent for reduced-price lunches. Consequently, changes in unemployment insurance would have only a small interaction with the school lunch program. Furthermore, the price category of the school lunch program is usually determined only at the start of the school year. Because spells of unemployment are relatively short, only a small portion of families that receive UI at some time during the year would receive it at the same time as they apply for the school lunch program.

CHAPTER III. EFFECTS OF PROGRAM CHANGES ON GOVERNMENT SPENDING AND HOUSEHOLD BENEFITS

This chapter discusses the budgetary effects of program interactions resulting from two general options for reducing outlays:

- o An across-the-board benefit reduction, and

- o A general eligibility restriction.

In each of the three programs--AFDC, Social Security, and unemployment insurance (UI)--the two hypothetical options are designed to achieve a 20 percent reduction in expenditures in that program. Although these two options do not correspond exactly to any changes currently under consideration by the Congress, they illustrate the direction and magnitude of effects for similar alternatives.[1] The chapter concludes with a brief discussion of current proposals to reduce spending for AFDC and Social Security which are illustrative of the options presented in this paper.

The analysis shows that the offsetting increases in spending by other programs could reduce the initial savings substantially in some cases and hardly at all in others. Furthermore, the savings and offsets vary considerably between the federal government on the one hand and state and local governments on the other. In some cases, the states would obtain most of the benefits derived from program cutbacks. In other cases, the federal government would receive most of the savings, and the states would actually have to increase their spending over what it would have been without the cut. Finally, it is important to note that interactions that reduced the total federal and state savings would also cushion the impact of the cut on affected households.

The estimates given in this chapter are expressed as percentages because in that form they are less dependent on particular

---

1. A large reduction was chosen to allow the smaller interactions to show up in the analysis. In some programs, cuts of this magnitude are outside the range of options that have been considered by the Congress.

baseline years and can be converted to dollar amounts when necessary.[2] As discussed in Appendix B, the estimates would not vary much for later years, although they could vary substantially for program changes different from those used in this report.[3]

BENEFIT REDUCTION

The first option, a uniform across-the-board benefit reduction of 20 percent, would affect every recipient's benefits by the same percentage. Such a reduction could be accomplished either in one step or over time by reducing cost-of-living adjustments.[4]

This kind of benefit cut in AFDC, Social Security, or unemployment insurance would interact with means-tested programs but would not affect nonmeans-tested programs. Moreover, such a benefit cut would not cause significant interactions with programs that use categorical eligibility for determining receipt of benefits, such as Medicaid or Medicare.

Aid to Families with Dependent Children (AFDC)

Of the three main programs analyzed, a 20 percent across-the-board reduction in AFDC benefits would produce the largest

---

2. To convert the percentages to dollars, apply the percent to the appropriate current policy baseline. For example, a 10 percent net reduction in federal AFDC spending for fiscal year 1983 translates to $0.83 billion because the CBO's current policy baseline for benefit costs in AFDC is $8.29 billion. State and local government spending for AFDC benefits is projected to be $7.04 billion for a total of $15.33 billion overall. Social Security and Railroad Retirement benefits, which are entirely federal, are projected to be $163.3 billion; UI benefits are projected at $24.95 billion.

3. Appendix B explains the methods used to derive the estimates in this paper and presents some cautions in their interpretation.

4. Reducing cost-of-living adjustments is not quite the same as an across-the-board benefit reduction, however. Program features such as minimum benefit amounts and caps on deductions would make the adjustment less uniform than an across-the-board reduction.

offsetting increases in spending for other programs. This implies that increased benefits in other programs would cushion a benefit cut for most AFDC families.

Effects on Government Spending. Interactions with other programs would reduce substantially the savings from an across-the-board cut in AFDC. Instead of a 20 percent decrease in outlays, the net impact on combined federal, state, and local spending is estimated to be a much smaller 14 percent reduction (see Table 4). Moreover, the effects on federal and state budgets would vary considerably.

Specifically, offsetting increases by the food stamp and housing assistance programs would total about 30 percent of each dollar cut in total AFDC spending. Food stamps would offset about 24 percent of each dollar cut in AFDC benefits.[5] For housing assistance programs, lower tenant incomes would reduce the amount of rent they pay and increase outlays by 6 percent of the reduction in AFDC.

In contrast, costs for Medicaid and school lunch programs would not be affected. Although all AFDC recipients are eligible for Medicaid, no interaction would occur because Medicaid benefits are not affected by the level of AFDC payments. Similarly, AFDC households have such low incomes that their children already qualify for free lunches, so no offset by the lunch program would occur from an AFDC benefit reduction.

Because of the way costs are shared among federal, state, and local governments for the AFDC, food stamp, and housing assistance programs, state and local governments would get the full 20 percent reduction in outlays while federal outlays would decrease much less--only about 9 percent. In other terms, 55 percent of each dollar cut from federal AFDC spending would be offset by increases in federal costs for other programs. Since the federal government pays the full cost of food stamp benefits and housing assistance, states and localities would receive the full 20 percent reduction in their portion of AFDC costs. The federal share of benefit costs varies by state and ranges from 50 percent to about 77 percent. Nationally, the federal share is about 54 percent, the states about 40 percent, and localities about 6 percent.

---

5. Using different methods, the Department of Health and Human Services (HHS) estimated that food stamp offsets for several of the Administration's proposals submitted during 1981 would be similar to that reported here--about 20 percent.

TABLE 4. ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN AFDC[a] BENEFITS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in AFDC (In cents)	Net Cut as Percent of Previous AFDC Outlays, Including Offsets
Medicaid	0	0	20
Food Stamps	6	24	15
Free or Reduced-Price Lunch[b]	0	0	20
Housing Assistance Programs[c]	2	6	19
Overall Effects, All Levels of Government[d]		30	14
Effect on federal budget		55	9
Effect on state and local budgets		0[e]	20

SOURCE: CBO estimates.

a. Aid to Families with Dependent Children.

b. National School Lunch Program providing free or reduced-price school lunch.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. Since the federal government pays for food stamps and housing assistance, increased outlays for these programs would not affect state and local budgets.

For the individual interacting programs, outlays would increase by about 6 percent for food stamps and by 2 percent for housing assistance as a result of a 20 percent benefit cut in AFDC. These increases would appear in their respective accounts in the federal budget.

Effects on Individual Households. Although the interactions at the program level described above would have corresponding effects at the household level, they would be manifested quite differently. For the typical AFDC household, only the Food Stamp Program would significantly offset the benefit decline. For the three-quarters of AFDC households that also receive food stamps, each dollar decline in AFDC benefits would be offset by about 32 cents, on average, in increased food stamps. The exact offset for each household would depend on net income and shelter expenses.

Only the one-fifth of AFDC households that live in public housing or pay reduced rent subsidized by housing assistance programs would be partially cushioned from the effects of an AFDC benefit cut through a decline in rent paid. With rent payments proportional to income, the combined effect of the AFDC cut and the resulting rent decrease would be that income, after deducting rent, would decline less for these households than for those not receiving housing assistance, whose income including rent would drop the full 20 percent.

About one-quarter of AFDC families do not receive either food stamps or housing assistance and, therefore, would not be cushioned from the effects of the benefit cut. Although they could apply for food stamps--and thereby reduce the decline in their incomes--housing assistance, in many cases, would not be available to them because of its limited supply.

Social Security

Because a smaller proportion of households receiving Social Security participate in other programs, reductions in Social Security would produce smaller offsetting increases in other programs than would reductions in AFDC. Given the large size of Social Security outlays, however, small offsets could mean large dollar amounts.

Effects on Government Spending. From an across-the-board reduction in Social Security benefits of 20 percent, interactions with other programs would reduce the combined federal and state savings slightly--to about 18 percent of previous Social Security outlays (see Table 5).

TABLE 5. ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN SOCIAL SECURITY[a] BENEFITS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in Social Security (In cents)	Net Cut as Percent of Previous Social Security Outlays, Including Offsets
Medicare	0	0	20
Medicaid	0	0	20
Supplemental Security Income (SSI)	20	6	19
Food Stamps	2	1	20[b]
Housing Assistance Programs[c]	3	1	20[b]
Overall Effects, All Levels of Government[d]		8	18
Effect on federal budget		7	19
Effect on state and local budgets		e	e

SOURCE: CBO estimates.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement programs.

b. The offsets are small enough that the net cut rounds to 20 percent.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. State spending would increase, not decrease. State SSI benefit costs would rise by about 0.3 percent of the amount of Social Security outlays saved, but states would not receive any of the savings in Social Security costs.

The estimated overall offset of 8 percent reflects interactions by SSI, food stamps, and housing assistance programs. Increased federal and state SSI benefits would offset about 6 cents of each dollar cut from Social Security spending, while food stamps and housing assistance programs would each offset about 1 percent. Although many Social Security recipients are covered by Medicare and Medicaid, no interactions would occur because benefits in these programs do not depend on the amount of Social Security received.

Because of federal/state cost sharing--the federal government pays all the costs of Social Security and most of the costs of programs that interact with it--the net reduction in federal spending is estimated to be 19 percent, an offset of 7 cents for each dollar cut from Social Security. The federal government would pay all the increased costs of food stamps and housing assistance and 94 percent of the increased costs of SSI.

States, on the other hand, would get none of the savings from reduced Social Security, but would have to increase spending for SSI by roughly 0.3 cents per dollar cut from Social Security.[6] This contrasts with the AFDC example in which states would receive their share of the AFDC cut, but would pay none of the increased costs in other programs.

As a result of the Social Security benefit reduction of 20 percent, the outlays of each interacting program are estimated to

---

6. Federal/state cost sharing in SSI is unlike other programs in that SSI recipients who receive Social Security and both federal and state SSI payments would have the decline in Social Security benefits offset dollar-for-dollar by increases in the federal portion of SSI. For these SSI recipients, their state supplement would not change. (For SSI recipients receiving only federal benefits, they too would have the decline in Social Security benefits completely offset.) Only those SSI recipients who receive a state supplemental SSI payment but no federal benefit would have their state supplement increased dollar-for-dollar to offset the decline in their Social Security benefits. These latter beneficiaries (12 percent of SSI recipients) receive about 6 percent of total--federal and state--SSI outlays.

increase about 20 percent for SSI,[7] about 2 percent for food stamps, and roughly 3 percent for housing assistance programs. These increases would appear in the accounts of these programs in the federal budget. Because states pay part of the costs of SSI, their SSI budget accounts would increase about 20 percent.

Effects on Individual Households. Unlike AFDC households, far fewer Social Security households--16 percent--participate in government programs that would offset benefit cuts. Consequently, about 84 percent of Social Security households would experience the full 20 percent cut in benefits with no increase in other benefits to reduce its impact. Most of them have assets and total incomes high enough to render them ineligible for means-tested programs.

About 9 percent of Social Security households also receive SSI, which would increase dollar-for-dollar to offset completely the Social Security benefit cut. Their total cash incomes would not change. Those who are eligible for programs such as SSI but not currently participating also could have their benefit cuts completely offset if they applied for SSI benefits. This study, however, assumes no change in participation rates for SSI.

Three percent of Social Security households receive food stamps, but not SSI; they would find, on average, that 28 percent of their benefit reduction would be offset by increased food stamps. Similarly, about 4 percent of Social Security households receive housing assistance, but no means-tested cash benefits. For them, rent payments would decline 25 to 30 cents for each dollar cut in Social Security. Very few Social Security households participate in other benefit combinations.

Unemployment Insurance

Unemployment insurance (UI) benefits could be cut uniformly by reducing the rate at which earnings are replaced. Generally, the replacement rate is intended to be 50 percent of prior earnings, up to a state maximum benefit. If the federal government required that earnings be replaced at 80 percent of the current rate, that would lower spending about 20 percent. Because few

7. The percentage increase for SSI is so large because 60 to 65 percent of SSI households also receive Social Security benefits and would be affected by the Social Security cut.

households receiving UI participate in other federal programs providing benefits to individuals, interactions would be small.

Effects on Government Spending. Offsetting increases in other programs would reduce the net savings from a 20 percent across-the-board benefit cut in unemployment insurance to about 19 percent (see Table 6). All of the savings and offsets from the benefit cut would appear in the federal budget. The offsets would principally come from increased food stamps benefits.[8] Outlays for food stamps would increase 1 percent; offsetting increases in the budgets of school lunch and housing assistance programs would be negligible.

Effects on Individual Households. Because households receiving UI have low rates of participation in other programs, few would receive offsetting benefit increases. Among the 6 to 9 percent of households who also receive food stamps, but no means-tested cash benefits, each dollar decline in UI would be offset by an average of 32 cents. All other UI households would experience the full 20 percent cut in benefits.

ELIGIBILITY REDUCTION

The second hypothetical option to achieve a 20 percent reduction in outlays would be to restrict eligibility so as to end benefits for some recipients entirely while leaving those of others unchanged. This could be accomplished in several ways. Examples for the three major programs discussed in this paper are:

- In AFDC, lower the income limit for eligibility from its current level of 150 percent of the state needs standard.

- In Social Security, raise the retirement age for early and full benefit entitlement from 62 and 65 to 68 and 70, respectively.

---

8. Although the balances of each state in the Unemployment Trust Fund would increase as a result of the cut, the increases are not available for other state programs because, by federal statute, the money is limited to paying UI benefits only. The increases in the Unemployment Trust Fund would appear in the unified federal budget and would lead to reduced federal outlays.

- In unemployment insurance, increase the waiting period before receiving benefits to three weeks or require more hours worked or earnings in the base period for eligibility.

TABLE 6. ESTIMATED BUDGETARY EFFECTS OF 20 PERCENT REDUCTION IN UNEMPLOYMENT INSURANCE IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in Unemployment Insurance (In cents)	Net Cut as Percent of Previous Unemployment Insurance Outlays, Including Offsets
Food Stamps	1	3	19
Free or Reduced-Price Lunch[a]	0	0	20
Overall Effects, All Levels of Government[b]		3	19
Effect on federal budget		3	19
Effect on state and local budgets		0	0

SOURCE: CBO estimates.

a. National School Lunch Program providing free or reduced-price school lunch.

b. The effects on different levels of government are not additive, but must be considered separately.

Restricted eligibility would cause interactions with both means-tested programs and programs that do not have income requirements. From the perspective of a means-tested program like food stamps, the loss of eligibility for AFDC, Social Security, or unemployment insurance would have the same effect as any other change in cash income. For programs with categorical eligibility for recipients of the cut program, the effect of restricted eligibility would be to eliminate the same recipients from both programs. For example, because AFDC beneficiaries are categorically eligible for Medicaid, ending eligibility for some AFDC households would have automatic effects on their Medicaid benefits.[9] Eliminating recipients from both programs would produce additional savings over those achieved by cutting AFDC alone. Similarly for Social Security and Medicare, restricting eligibility for Social Security could restrict eligibility for Medicare, depending on the legislation enacted.

Aid to Families with Dependent Children (AFDC)

The two major differences between a restriction in AFDC eligibility and a reduction in AFDC benefits are: recipients would lose Medicaid benefits in the former case but not the latter, and fewer of those that would be eliminated in the former case participate in more than one program.

Effects on Government Spending. As a result of interactions with Medicaid, food stamps, and housing assistance programs, the net percent decrease in combined federal, state, and local spending from an eligibility restriction in AFDC is estimated to be about 22 percent (see Table 7). The additional savings beyond the 20 percent cut from AFDC arise because the reductions in Medicaid expenditures are estimated to be larger than the increases in spending for food stamps and housing assistance programs. Such additional savings would be about 9 cents for each dollar cut from total AFDC spending.

Because of the way costs for these programs are shared among federal, state, and local governments, the impact on their respective budgets would be quite different, however. With the offsets included, federal spending would decline by 19 percent of previous federal AFDC outlays--compared to 9 percent for a 20 percent across-the-board benefit reduction. The net effect is different because some of the households eliminated from AFDC would also

9. In states without a medically needy program, recipients losing AFDC would also lose Medicaid. Even in some states with a medically needy program, loss of AFDC would lead to reduced coverage for some Medicaid services.

TABLE 7. ESTIMATED BUDGETARY EFFECTS OF CHANGING ELIGIBILITY REQUIREMENTS TO ACHIEVE A 20 PERCENT REDUCTION IN AFDC[a] OUTLAYS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in AFDC (In cents)	Net Cut as Percent of Previous AFDC Outlays, Including Offsets
Medicaid	-2	-30	26
Food Stamps	5	20	16
Free or Reduced-Price Lunch[b]	0	0	20[c]
Housing Assistance Programs[d]	e	1	20[c]
Overall Effects, All Levels of Government[f]		-9	22
Effect on federal budget		5	19
Effect on state and local budgets		-14	23

SOURCE: CBO estimates.

a. Aid to Families with Dependent Children.

b. National School Lunch Program providing free or reduced-price school lunch.

c. The offsets are small enough that the net cut rounds to 20 percent.

d. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

e. Less than 0.5 percent.

f. The effects on different levels of government are not additive, but must be computed separately.

lose Medicaid benefits, leading to additional federal savings, while spending for the food stamp and housing assistance programs would increase, but not as much as with the benefit cut. For the federal government, the net offset for each federal dollar cut would amount to about 5 percent for the eligibility restriction in AFDC, compared to over 50 percent for the benefit reduction.

On the other hand, because state outlays would decline not only for AFDC but also for Medicaid, the net reduction in state spending would be 23 percent of previous state AFDC outlays instead of 20 percent. As in the case of the benefit cut, the states would pay none of the offsetting increases in food stamps and housing assistance programs.

As a result of an eligibility restriction that would reduce total AFDC spending by 20 percent, the accounts in the federal budget of individual interacting programs would change. Medicaid outlays would decline roughly 5 percent, food stamp outlays would increase about 5 percent, and housing assistance outlays would increase less than 0.5 percent.

Effects on Individuals. The most important effect for those households made ineligible for AFDC might be the loss of Medicaid coverage. If they live in a state without a medically needy program, each household would lose coverage worth roughly $1,200 in fiscal year 1983. In states with a medically needy program, affected AFDC households with high medical expenses probably would still qualify for Medicaid coverage. Those with low medical expenses would generally have to pay for them out of their other income. Other programs, such as food stamps and housing assistance, would cushion the impact of an eligibility restriction in the same manner as the benefit reduction discussed previously.

Social Security

Changing eligibility rules for Social Security to achieve a 20 percent reduction in expenditures is estimated to produce much smaller interaction effects than was the case in AFDC. Interactions would reduce the net savings only slightly from 20 to 19 percent. The largest interactions would be with Medicare, which would produce additional savings, and SSI, which would produce additional spending (see Table 8). Because of the reduction in Medicare spending, the net federal savings--almost 20 percent--would be larger than the 18 percent that would occur if benefits were cut across-the-board by 20 percent.

TABLE 8. BUDGETARY EFFECTS OF CHANGING ELIGIBILITY REQUIREMENTS TO ACHIEVE A 20 PERCENT REDUCTION IN SOCIAL SECURITY[a] OUTLAYS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in Social Security (In cents)	Net Cut as Percent of Previous Social Security Outlays, Including Offsets
Medicare	-4	-7	21
Medicaid	1	1	20[b]
Supplemental Security Income (SSI)	20	6	19
Food Stamps	2	1	20[b]
Housing Assistance Programs[c]	3	1	20[b]
Overall Effects, All Levels of Government[d]		2	19
Effect on federal budget		1	20[b]
Effect on state and local budgets		1	e

SOURCE: CBO estimates.

a. The term Social Security is used here to include both Old Age, Survivors, and Disability Insurance (OASDI) and Railroad Retirement programs.

b. The offsets are small enough that the net cut rounds to 20 percent.

c. Household lives in public housing or pays reduced rent subsidized by housing assistance programs.

d. The effects on different levels of government are not additive, but must be computed separately.

e. State spending would increase for Medicaid and SSI, but states would not obtain any of the savings in Social Security.

Effects on Government Spending. The federal government would benefit from all of the reduced Social Security and Medicare spending but would also pay much of the offsetting increases in other programs. The states would not benefit from either lower Social Security or lower Medicare spending, but would pay a small portion of increased SSI and Medicaid benefit costs.

Because Medicare eligibility is tied to Social Security, a restriction in Social Security eligibility could produce additional savings by making those ineligible for Social Security also ineligible for Medicare. The amount of additional savings in Medicare would depend on how Social Security eligibility was restricted, however. Increasing the age of retirement above age 65 would also restrict eligibility for Medicare because it currently depends on being both over age 65 and entitled to Social Security benefits. The CBO estimates that about 15 percent of Social Security recipients would be eliminated and would also lose Medicare, but because they would be younger and healthier than the average Medicare beneficiary, their use of health-care services are assumed to cost roughly half as much. Thus, the additional reduction in Medicare spending is estimated to be about 7 percent of reduced spending in Social Security.

Between 5 and 15 percent of the eliminated Medicare recipients would become newly eligible for Medicaid, producing an offsetting increase of roughly 1 percent for each dollar cut. Because of matching federal grants, the federal government would pay 54 percent of the increase and the state and local governments 46 percent.

Some of those eliminated from Social Security would become eligible for SSI, causing a 6 percent offsetting increase for each dollar cut from Social Security. (CBO assumes this would be the same as in the case of an across-the-board benefit cut.) Again, about 94 percent of the increased SSI spending would be paid for by the federal government and about 6 percent by state governments.

Both food stamps and housing assistance programs would contribute small offsetting increases in spending--about 1 percent each for every dollar cut from Social Security. Both these offsetting increases in outlays would be federal.

As a result of restricted Social Security eligibility, SSI would have the largest increase in its outlays of the five interacting programs--20 percent. Outlays for other programs would increase by smaller amounts: 1 percent for Medicaid, 2 percent for food stamps, and 3 percent for housing assistance. On the other hand, Medicare spending would decrease about 4 percent.

Effects on Individual Households. Households that would no longer be eligible for Social Security would face possible loss of health benefits with a substantial benefit value--averaging roughly $3,000 annually.[10] Some 5 to 15 percent of these households would be eligible for Medicaid, which would provide them with a similar package of medical benefits.[11]

Most newly ineligible Social Security households would be unable to meet the income and asset tests of SSI and so would receive no offsetting increase in other cash assistance. Roughly 9 percent of the newly ineligible households who were already SSI participants would face little change in their cash or health benefits. SSI payments would increase to offset most or all of the loss of Social Security benefits; Medicaid coverage would provide an approximate health-care equivalent for Medicare.

Food stamps and housing assistance programs would partially offset the lost Social Security benefits for a few--about 5 percent--of the eliminated households.[12] For them, food stamps would offset about 28 percent of the Social Security loss. Similarly, those households that could meet the stringent requirements and be placed in the limited housing assistance programs would have their rent reduced, partially offsetting the decline in income.

---

10. Because of the loss of Medicare, some people might continue to work to retain employment-related health benefits. Such responses by recipients have been omitted from these estimates. Continued employment could be facilitated by the 1978 amendments to the Age Discrimination in Employment Act, which increased the minimum allowable age of mandatory retirement from 65 to 70.

11. Medicaid covers more services than Medicare--for example, long-term care and, in some states, dentistry and prescription drugs. On the other hand, Medicaid pays physicians less in many states, so access to care is sometimes reduced for Medicaid recipients.

12. Actually, 8 percent of Social Security households receive food stamps, but those who also receive SSI would have no change in their cash income and, therefore, no change in food stamps.

Unemployment Insurance

As in the case of an across-the-board reduction in unemployment benefits, the limited participation of UI households in other programs would reduce interactions under the restricted eligibility option.

Effects on Government Spending. The only program that would interact significantly with UI because of restricted eligibility would be food stamps which would increase to offset about 3 cents of each dollar in reduced outlays for unemployment insurance (see Table 9).[13]

The offsetting increase in food stamp spending would reduce the net savings from 20 to 19 percent (see Table 9). Both the savings from cutting UI and the offset by food stamps would appear in the federal budget; state budgets would not be affected. Benefit costs for food stamps would increase about 1 percent, depending on the unemployment rate.

Effects on Individual Households. For households made ineligible for unemployment insurance, food stamps would be the primary replacement program. Depending on the unemployment rate, 6 to 9 percent of these households would receive enough food stamps to offset about one-third of their lost unemployment benefits.

CURRENT PROPOSALS

This section describes several current proposals to reduce spending in AFDC and Social Security that would have significant secondary effects on the budget. The Congress is giving little attention to further cuts in unemployment insurance because of last year's reductions combined with the current recession.

---

13. The data used to derive the estimates in this report do not accurately distinguish between whether there would be complete overlap of benefits or whether benefits for other programs would start after unemployment insurance ended. The estimates given may, therefore, overstate the overlap and consequently the size of the interactions.

TABLE 9. ESTIMATED BUDGETARY EFFECTS OF CHANGING ELIGIBILITY REQUIREMENTS TO ACHIEVE A 20 PERCENT REDUCTION IN UNEMPLOYMENT INSURANCE OUTLAYS IN FISCAL YEAR 1983, BY INTERACTING PROGRAM

Interacting Program	Increase in Interacting Program's Outlays (In percents)	Offset to Each Dollar Cut in Unemployment Insurance (In cents)	Net Cut as Percent of Previous Unemployment Insurance Outlays, Including Offsets
Food Stamps	1	3	19
Free/Reduced Price Lunch[a]	0	0	20[b]
Overall Effects, All Levels of Government[c]		3	19
Effect on federal budget		3	19
Effect on state and local budgets		0	0

SOURCE: CBO estimates.

a. National School Lunch Program providing free or reduced-price school lunch.

b. The offsets are small enough that the net cut rounds to 20 percent.

c. The effects on different levels of government are not additive, but must be computed separately.

Aid to Families with Dependent Children (AFDC)

The Administration has proposed changes in AFDC that it estimates would reduce spending by $1.2 billion, or about 17 percent, in fiscal year 1983. Almost half the savings would be achieved through direct reductions in benefits, one-fifth through